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Curbing Crony Capitalism in India

Chiranjib Sen



Abstract: *Economic reforms sought to replace the Indian state-dominant economy with a liberal, competitive market economy. However, a plethora of recent scams indicate that collusive rent-sharing arrangements between business and policy makers are prevalent. A nexus has developed, linking politicians and business, as well as the bureaucracy. These trends signal a breakdown of competitive markets and the accumulation of wealth via corruption. This paper explains crony capitalism within a framework of interaction between four stakeholder groups whose motives and behaviour have altered in the recent context. These are political executives, political parties, business entities and the bureaucracy. Using the coal mine block allocation controversy as a case study, we examine the modus operandi of crony capitalism as a capture of the policy process. We examine the limitations of the present corrective political and legal processes. The paper concludes with a set of recommendations for curbing crony capitalism via reform of: (a) the political funding system, (b) the policy process, (c) the audit institution and (d) the business environment.*

Keywords: *crony capitalism; rent-seeking; government-business relations; institutional reform*

Curbing Crony Capitalism in India

Chiranjib Sen¹

1. Introduction

'Crony capitalism' refers to a business environment in which the competitive rules of the game in a market economy are corroded, particularly in relation to the allocation of publicly-owned resources. This happens because of the government's favouritism towards particular private entities. It constitutes a major flaw in the government-business configuration in a country. This phenomenon has emerged particularly in 'emerging market economies' and 'transition economies' during the process of implementing market-oriented economic reforms. Market reform policy experiments have been unfolding globally for over three decades. They are part of a world-wide resurgence of capitalism. In India, the process began in 1991 under P. V. Narasimha Rao. Inspired by "Washington Consensus" policies, and supported by the World Bank and the International Monetary Fund (IMF), the grand objective of these reforms was to introduce liberal market systems in developing countries. This involved disrupting the pre-existing economic "developmental state", particularly the reversal of the government's dominant role in the economy, and retreating from strategic policy making. Economic controls and regulation would be reduced. The role of the private sector would be significantly enhanced, public sector enterprises reined in, and privatised where feasible. At the heart of the structural agenda of reforms has been the redefinition of the relationship between government and private business. This transition has not, however, always gone in the direction that market reforms had intended. Kohli (2006) has questioned the government's commitment to adhere to a "pro-market" policy regime after 1991. Instead, he argues that the stance remained "pro-business", continuing a trend initiated by Indira Gandhi as early as 1980. In particular, the government has been sensitive to the interests of indigenous big business interests, cooperated with apex business associations and sought to protect them from foreign competition. Kohli's point regarding the efforts of business groups to influence the direction of reforms is well taken.

1 This is a revised version of a paper presented at the 11th Annual International Conference on Public Policy and Management, organized by the Centre for Public Policy, Indian Institute of Management Bangalore, 8-10 August 2016. I thank the two anonymous reviewers for their helpful comments.

Nevertheless, in our view, the broad direction towards economic liberalisation since 1991 can hardly be questioned. Policy makers proclaimed and justified the road map of Indian reforms with reference to the desirability of a “pro-market” paradigm. The pace of reform has perhaps been gradualist. Competition, both domestic and external, has increased substantially.² In all types of market economies, government functionaries must continually interface with interest groups. At the same time, the government’s role is to uphold public interest. This task is facilitated by the institutions of economic governance that mediate the relationship between government and business. Efforts were made to reform these institutions and make them market-friendly (e. g., independent regulatory institutions; see Bhattacharya and Patel, 2005). However, these reform efforts were not adequate, as they failed to harness private interests sufficiently to build a “rules-based” system of governance. Indian institutions of economic governance have failed to adapt to the “pro-market” liberal economy. Nor, unfortunately, have they adapted to the needs of an efficient “pro-business” economy.³ As a result, the process of transition from a state-dominated economy to a market-led system has been distorted. The emergence of crony capitalism (which is a perverse manifestation of capitalism) in certain sectors is a symptom of this failure.

Crony capitalism is riddled with policy capture and corruption. It should not therefore be conflated with a “pro-business” policy regime. It has no place in either a good “pro-market economy”, nor in an efficient “pro-business” economy. This development poses a serious challenge to an efficient capitalist economy operating in a democratic political system. We do not claim that Indian industry is currently dominated by crony capitalism. Our limited claim is that it is an emerging phenomenon, which has the potential to spread. It is visible in particular sectors of the economy, especially those in which government permissions are important for functioning. In this paper, we analyse the structural reasons for the emergence of crony capitalism, and also offer some suggestions on how to meet the challenge.

There are several alternative variants of a capitalist economy. A major factor distinguishing them is the relationship between governments and markets. It is important to situate crony capitalism within these alternative variants of capitalism. Baumol, Litan and Schramm (2007) identify four distinct types of capitalism from the perspective of growth potential. These are: state-guided capitalism, oligarchic capitalism, big firm capitalism and entrepreneurial capitalism. Crony capitalism can be situated within this framework as a mild form of oligarchic capitalism, “in which the bulk of power and wealth is held by a small group of individuals and families” (Baumol et al., 2007: 60). Under this type of capitalism, government policies are typically designed to benefit a narrow, wealthy group

2 One indication of this trend is that over the longer run since the 1980s, the companies in the list of top 100 Indian companies has undergone a substantial change (Nagaraj, 2015). However, if the period since 1991 is considered, the picture is of relative stability in the types of firms at the top. Most of the “incumbent firms” have remained important during the liberalisation era. The number of genuinely new entrants is relatively small (Mazumdar, 2008).

3 The “pro-market” economic model is the so-called “Washington Consensus” model espoused by the multilateral institutions. Kohli takes as an example the “pro-business” model of South Korea, under Park Chunghee (Kohli, 2006).

of people. This is a bad type of capitalism. It is associated with high inequality, where broad-based economic progress does not occur. Governance here assumes a predatory form, as oligarchs plunder public resources. Authoritarianism results from the need to maintain an unequal and unfair system through exercise of power. Unfortunately, oligarchic capitalism is not uncommon. An estimated 1 billion people live under such systems, mostly in developing countries around the world.⁴

It is worth noting that *oligarchic capitalism is not identical with big firm capitalism or monopolies*. The distinction lies not in the presence of large enterprises, but rather in *the unfair and biased rules of the game*. Crony capitalism is also not identical to state-directed capitalism, where the state is interventionist (e. g., the erstwhile economic systems of South Korea and India). In all market economies in which large enterprises are significant, there is a risk of cronyism. However, its development depends on whether the state conducts economic governance in a fair and socially rational manner. Institutions of governance enable and support market exchange. This includes those institutions that maintain economic laws, resolve economic disputes, enforce contracts, regulate markets and ensure accountability. Crony capitalism results when these *institutions of economic governance malfunction*.

Capitalist systems are not homogeneous. Institutions of economic governance vary significantly across them. Hall and Soskice (2001) analyse the institutional features of advanced capitalist economies. From an *institutional perspective*, they distinguish between two polar models of market economies—the Liberal Market Economy (LME) and the Coordinated Market Economy (CME).⁵ In an ideal LME, the economic coordination of firms' activity takes place through arms-length transactions mediated by competitive markets and formal contracts. Firms compete with each other in markets and do not share information informally. They do not coordinate activity with other firms. Information regarding the firms' operations and economic status is available publicly through balance sheets. *Competition is the most important coordinating force, and it is indispensable to efficiency in the LME*. The USA is an economy based on the LME model. In CMEs like Germany and Japan on the other hand, economic coordination of firms relies on relation-based management and incomplete contracts and collaboration. Institutions exist for facilitating deliberation, information exchange, negotiation, and enforcing agreements without recourse to courts of law. These are part of the practice of relational coordination, in which the complementary roles of government, trade unions and industry associations are important. Economic coordination and disciplining are done *by both market competition as well as via transparent non-market consultative processes*. Crony capitalism conforms neither to the model of a good LME, nor is it an efficient CME. In crony capitalistic contexts, neither type of economic coordination mechanism (market competition nor non-market consultative processes) works in a socially rational manner.

4 Oligarchic capitalist systems are prevalent in "much of Latin America, in many states of the former Soviet Union, in most of the Arabic Middle East, and in much of Africa" (Baumol et al., 2007: 71).

5 The "liberal market economy" corresponds to the Anglo-US variant of capitalism, whereas the "coordinated market economy" corresponds to economies of several European countries such as Germany and the Scandinavian countries, as well as Japan (Hall and Soskice, 2001).

The Washington Consensus market reforms aimed to establish LMEs in “emerging markets”, and their policy recommendations are consistent with the above-mentioned features. Indian economic reforms have been modelled on this template.⁶ In principle, LMEs aim to establish the following:

- There should be sufficient competition, and a framework of rules should exist which economic agents follow.
- Rules are monitored by governments.
- Formal contracts are enforced through legal mechanisms.
- Financial markets and legal systems must work efficiently.
- The government should maintain neutrality and equidistance from individual business interests. The government’s role is analogous to that of an umpire. Its main concern is to establish and maintain fair rules of competition.
- The allocation of resources is governed by market processes, with minimal intervention from the government in situations of market failure.
- The government should manage the macro-economy by keeping the fiscal deficit in check, and it should allow the central bank functional autonomy in monetary policy.
- The government should ensure the existence of credible and fair institutions of regulation and accountability. These should be able to function with independence and without political interference.
- Government ownership of enterprises should be minimal.
- The industrial finance system is governed through stock markets.

The emergence of crony capitalism in India signifies the failure of transition to a well-functioning LME.⁷ In this paper, we argue that the root cause of this failure is the weakness of the institutional framework during the reform process. This has permitted the rules of fair arms-length market competition to be flouted. Economic allocation has occurred in several instances through connivance between government/political actors and specific business firms. Institutions of regulation and audit have been unable to prevent these breaches, though the CAG has drawn public attention to them.

6 The key elements of the Washington Consensus are: fiscal discipline; reallocation of public expenditure towards health, education, infrastructure (where markets typically fail); tax rate reduction; interest rate liberalisation; market-determined competitive foreign exchange rates; trade liberalisation; FDI liberalisation; privatisation; deregulation and secure property rights.

7 There has been a longstanding debate in the literature on whether India can at all be characterised as a capitalist economy. These doubts have focused on two elements—the organisational basis of the rural economy (i. e., whether it is “semi-feudal”) and the dominant economic role of government (i. e., whether it is “socialist”). See Nadkarni (1991) on the mode of production debate. After 1991, the trends towards capitalism have strengthened markedly—particularly in the modern industry sector which is the focus of this paper. The Indian economy is not homogeneous, but institutionally fragmented. Pushed by market reforms, the modern sector is in a transition from a state-directed economic system to a liberal market economy. As we elaborate below, the modern sector itself shows a dualistic pattern. One sector (e. g., the IT Industry) is evolving towards a liberal economic system, while the other shows signs of crony capitalism.

In this paper, we present an analytical framework to explain the structural reasons behind the emergence of crony capitalism in India. We also suggest some measures to curb it. In particular, we will focus on the ways in which regulatory and accountability institutions might be strengthened. However, we recognise that strengthening regulatory and accountability institutions is a partial and limited answer to the problem. To eradicate crony capitalism comprehensively, we require parallel action on other fronts, namely political funding, corporate governance and legal systems.

2. Crony capitalism—the Indian context

Market reforms represent an effort to shift India from a state-directed economy to an LME. Prior to liberalisation, the prevailing business environment in India was characterised by rigid controls and licensing. Public sector enterprises were the main vehicles of industrialisation strategy. Private industrial enterprises in India played a minor role. However, even in this environment, a small number of large Indian-owned enterprises managed to thrive. Most of them were family-controlled conglomerates (“business houses”), who were able to benefit from protection from competition despite the manifold constraints on economic activity. These companies forged an understanding with government, which enabled them to negotiate business conditions and obtain licences. The business relationship with government during this period was dubbed “cosy straightjacket” (Desai, 1993; see also Kohli, 2006) to indicate its dual nature—favourable because of protection from international and domestic competition which made it comfortable for those who had licences, but also difficult because of restrictions with regard to investment and capacity expansion, imports of machinery and raw materials. Private businesses did make election funding contributions to major political parties. Nevertheless, the government was unquestionably in a dominant position in policy making, and this was legitimised via the ideology of planning. By the 1980s, this economic governance system had faltered, and was generally perceived to be ineffective. Corruption in the issuance of licenses and permits became rampant. Domestic business interests through apex associations such as CII became vocal in their criticism of the economic environment. The disaffected business entities included a new group of capitalists with global aspirations—the new entrants in the Information Technology (IT) sector and others who longed to participate in international markets. They emerged as a major domestic lobby that supported market reform and favoured opening up the economy to international markets.⁸

The market reforms beginning in 1991 sought explicitly to redesign government-business relationships, particularly with respect to the economic governance of industry. In particular, the government adopted a pro-business policy stance—controls would be substantially reduced or eliminated, and the government would assume the role of facilitator. On most aspects of policy, the government began regularly consulting industry associations. Frequently the Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and

8 Kohli (2006) describes this period in detail. See also the papers referred to in footnote 2.

other apex business association took the initiative by proactively suggesting policy directions to the government. The new industrial policy enabled the private sector to enter several areas that had previously been the exclusive domain of public enterprises. Many of these involved natural resources or were network-based industries, such as coal, petroleum and telecommunications. The government established several independent regulatory institutions, such as the Telecom Regulatory Authority of India (TRAI). The key role of these regulatory institutions was to ensure that private companies had a level playing field vis-à-vis entrenched government-owned monopolies. The economy appeared to be transitioning towards liberal market-based capitalism during the 1990s. The balance of payments position stabilised, and as several Indian firms became internationally competitive, private foreign capital flows increased.

As the new millennium progressed, something went wrong. The transition towards an LME began to falter. In particular, the quality of economic governance worsened.⁹ Among the negative developments were the following:

- a. A large number of corruption scandals became public.¹⁰ The scams involved government functionaries, including senior ministers of the Central government. Most of the scams were connected with allocations to private parties of ownership or use rights to publicly-owned resources.
- b. The distribution of wealth became highly unequal.¹¹ What is more striking is the fact that the very rich have improved their position substantially. The ratio of billionaire wealth to GDP in India was estimated to be among the highest in the world. More significantly, a large share of the billionaire wealth in India was found to have originated in so-called “rent-thick” sectors.¹²
- c. Corruption emerged as a political issue. This damaged the image of the government and the legitimacy of their reforms. This was a key reason why the UPA2 coalition government was decisively defeated in the 2014 Lok Sabha elections. However, the change in government has not fundamentally altered the government-business relationship. A nexus has developed linking politicians and business, as well as the bureaucracy. The phenomenon is not confined to any single political party. It is widely believed that there is a close relationship between

9 A detailed discussion of Indian industrial policy and related institutions may be found in Sen (2016); see also Siddharthan (2014).

10 The recent well-publicised corruption scandals involving government and political actors and very large presumed losses to the government exchequer include the coal allocation scam (2012), the 2G spectrum allocation scam (2008), the Wakf Board Land scam (2012), and Commonwealth Games scam (2010). There is a continuing controversy surrounding the allocation of exploration rights and pricing of natural gas in the K. G. Basin since the report of the CAG (2011). Apart from these, there are many scams involving private companies, such as Satyam. I thank C. K. Mathew for sharing his presentation on corruption.

11 For an analysis of wealth distribution in India in the first decade of market reform, see Jayadev et al. (2011). The study finds that inequality in asset distribution has always been high, but has worsened marginally at the aggregate level. The urban and rural elites have improved their position, and the rural poor have fallen further behind. However, the authors note that the NSS data tend to under-sample the very rich segments. Further, they believe that the rich tend to under-report their wealth. Hence the true inequality is likely to be higher than estimated.

12 See Walton (2010). Walton reported that the ratio of the wealth of billionaires resident in India to the GDP in PPP terms rose from 1% in 1996 to 14% in 2010. Another study (Gandhi and Walton, 2012) found that 43% of Indian billionaires and 60% of the primary source of their wealth originates in sectors that they characterized as “rent thick”. These were real estate, construction, infrastructure and ports, media, cement and mining. Operating in these industries involves obtaining permits and licences. It is generally believed that these industries are characterised by corruption.

some powerful business persons (e. g., the Adani group) and the present BJP-led government (Gowda and Sharalaya, 2016). The Adani group has achieved dramatic business success in recent years. Such proximity between political executive and a specific business firm would not be compatible with an LME.¹³

Crony capitalism (though currently relatively narrowly based) poses a major future threat to the Indian economy. The wide publicity received by scams projects a negative image of the country's business environment. This is likely to deter both domestic and foreign investment, and lead to a slowdown of economic growth. Crony capitalism is a more deep rooted malaise than corruption. Petty corruption and bribery serve to facilitate transactions and distort competition, but they do not normally threaten the functioning of the overall economic system. However, *under crony capitalism particular economic agents acquire the ability to directly influence policies in their favour, and also the capacity to bend or bypass established governmental decision making processes*. This corrodes the competitive mechanism and robs the market system of its singular allocative instrument. Without this disciplining instrument, the LME loses efficiency. Crony capitalism may grow and evolve into the more extreme manifestation of "oligarchic capitalism".

Therefore, the trend towards crony capitalism should be curbed. What needs to be done? To determine the course of action, we need to understand the institutional structure of crony capitalism. By its very nature, crony capitalism is non-transparent. It is difficult to obtain empirical material on the phenomenon. However, first person accounts have recently generated a steady stream of anecdotal evidence and revelations on how various scams operate. The reports of the CAG have shed additional light on the matter. Building on the scattered evidence, we develop an analytical framework for understanding crony capitalism in India. This will enable us to explore answers to such questions as: how does crony capitalism arise? Why do normal and long established processes of policy making and government decision making give way to pressures to favour some particular business groups? What steps can be taken to bolster defences against cronyism?

3. Structural determinants of crony capitalism in India

We shall attempt to explain crony capitalism in terms of the stylised behaviour in the economic domain of four key sets of actors. These are:

- a. The political executive which governs, supported by the ruling political party or coalition.
- b. The political parties that contest democratic elections to gain power.
- c. The capitalist firms that compete with the goal of profit making, and
- d. The bureaucracy that operates the apparatus of government. Policies are made by the policy executive (the minister) in association with the bureaucracy. The bureaucracy frames rules and implements policies.

¹³ A general "pro-business" orientation of government does not signify crony capitalism. However, in a LME, government should maintain equidistance from specific business interests so that the competitive playing field is level.

In addition to the above, there are institutions that ensure that policies and rules are framed and implemented following due process. These are regulatory bodies and accountability (audit) institutions.

We argue that the motivation and functioning of each of these actors has been changing over time as a result of economic reforms. In the decades preceding the economic reforms, the government-business relationship was shaped by a particular type of role definition. Important drivers of the change in the roles of the major actors are globalisation, and the increased policy focus on growth. These have altered the content of policy across the board.

Enabling environment for crony capitalism—changing role of key actors

(a) *The political executive:*

Prior to reforms, the government pursued a *nationalist* economic agenda. The main task of the “developmental state” was to ensure that resources were invested in accordance with *defined strategic national goals*, particularly in domains where public returns were high but private capital unwilling or unable to enter. The *legitimacy* of their actions were determined by the pursuit and attainment of developmental goals, including in such areas as education, health, balanced regional development, reduction of poverty and inequality. After the market reforms, these development goals were no longer as important. They have been displaced by an *almost exclusive focus on the rate of GDP growth*, accompanied by adherence to the agenda of *economic liberalisation*. In practice, this has implied enabling and enhancing the role of the private sector wherever feasible. A key goal has been to enable private sector access to natural resources such as telecom spectrum and mineral ores, petroleum and natural gas.

The *strategic role of government has reduced drastically*. This change has been formalised recently via the abolition of the Planning Commission by the BJP-led government. A major effect of these changes is that policy making is now much less consultative and transparent, and *there is no overarching long-term national vision to guide economic policy*. Policy decisions are communicated to the public mainly through the annual government budgets. By its very design, the focus of annual budgets is short term. Policy attention is focused on macro-economic targets—such as the fiscal deficit, inflation and GDP growth from a decidedly short-term perspective. *Consequently, long-term policymaking has become more discretionary, and segmented by sector*. The power of the politician in policymaking has increased. Without the checks and balances provided by consultative mechanisms such as the Planning Commission, political discretion in policymaking has increased.¹⁴ Long-term policy goals are frequently expressed in the form of exaggerated and over-optimistic targets. The main purpose of such pronouncements is to justify higher expenditure targets, and to

¹⁴ The sudden and dramatic move by the Modi government to “demonetize” high-value currency notes without any internal consultation even with the RBI is a striking example of this trend.

make a case for inducting private participation. In general, the exaggerated targets in roads, natural gas and petroleum and coal production are rarely fulfilled. In short, the political executives in the post-reform period are unable or unwilling to ensure that private entities actually deliver on the promised performance targets.

The effectiveness of the political executive with regard to policy depends on the following factors:

- The *stability* of the government which in turn is given by the strength of the ruling party or coalition in the legislature;
- The *legitimacy* of the policies with key stakeholders, and with the general public. Key stakeholders are typically representative organizations (e. g., industry associations, trade unions, and other organised interest groups), and also the public at large.
- The *ability to implement* chosen policies. This depends on the soundness of the policy design, and the efficiency of the bureaucracy to manage the policy implementation process.
- Individual political executives (ministers) must also ensure their own political viability. This involves managing the relationship with the party to which they belong, and carrying out the directives of the party leadership. This can become complex in coalition governments. In situations of crony capitalism, the objective of the executive is also to manage the relationship with specific interests, and to generate funds for themselves and their political parties.

(b) Political parties:

The nature of politics has changed dramatically over the years, and so has the role of political parties in India.¹⁵ During the early decades following independence, the goal of the dominant Congress party was public service, fuelled by nationalist ideology. Persons who shared the core principle, mission and ideology formed a party. Elections were contested in order to provide public service to the people in the form of appropriate policy. This was emulated by all the other parties. The party was strongly unified under its leader Nehru, who also headed the government. It was possible for the Congress under Nehru to balance interests and to forge consensus over policy. It was not unduly concerned with re-election. Over time, the political situation changed as the Congress party fragmented. New parties were formed, and political competition increased. During Indira Gandhi's regime, political parties relied on populist policies to appeal to particular groups in order to form voter "coalitions". Indira Gandhi's "garibi hatao" campaign successfully consolidated the support of the poor, the Dalits, and adivasis. She was able to directly appeal to the electorate via her policy proclamations, and did not require the support of lower-level political functionaries.

After the Indira Gandhi period, the nature of political competition changed further. In what is now a much more "competitive phase", the process of political fragmentation has deepened. There has been

¹⁵ For an account of the changing role of political parties, see Sarangi (2016). I have drawn on Sarangi's analysis in this section.

a proliferation of smaller political formations, which rely on caste, religion or community identity. The larger political parties are now dependent on the support of these smaller political parties and groups to form coalitions. In fact, coalition governments are now the norm in Indian politics both in the Centre and the states. These structural transformations have increased the degree of instability of governments, and uncertainty about policies. Policies are subject to multiple political pressures from coalition partners in a government. These are therefore liable to change. *Hence the clarity of policy direction from the earlier period has been lost.* Political parties now adopt a flexible stance towards policies, and are ready to mould them in response to pressures from coalition partners to suit the need of the moment. There is a “political market” for policies, and political parties behave analogously to business firms. According to Sarangi,

Political parties are like firms involved in designing or redesigning of products (policy) which get maximum returns to their shareholders (party activists and supporters) and which need not necessarily maximize the good of the entire society (Sarangi, 2006: 42).

In the new context, the motivation and behaviour of political parties has changed in the following significant ways:

1. Political parties do not seek to maximise votes, but rather to maximise the “political dividend”. This alludes to a combination of benefits that do not necessarily depend on winning elections and capturing government power—monetary rewards, prestige, status and access to political institutions.
2. Political parties engage in “rent-seeking”. Problems are solved for a price. Those who can pay politicians are able to get their problems addressed. Incomes may be generated through such actions as taking a cut in contracts and arranging transfers or appointments of officials. Certain areas are believed to be particularly rich in rent-seeking possibilities. These include: inducing changes in policy to benefit particular interests (“policy capture”), large government contracts and investments, natural resource allocations, infrastructure projects and defence contracts, and taxation laws.
3. Political parties need to meet the sharp increases in financial cost of political activity. Gowda and Sharalaya (2016) present some estimates of the cost of elections. The technology and mode of conducting election campaigns have changed greatly, which has led to sharply rising costs. Parties and candidates spend heavily on advertising through mass media, event management, transportation, including air travel. These costs are truly astronomical.¹⁶ The

¹⁶ Star campaigners also use more expensive modes of travel such as helicopters and Lear jets. Each large public rally reportedly costs in the range of US\$ 800,000 to \$ 3 million. Items of expenditure include hiring of giant LED screens, running 10-15 special trains, 4000-6000 buses and private vehicles, tents, 3D hologram technology screens, 15,000 billboards, newspaper ads, TV spots, and so on. In addition to costs incurred by the political party, each candidate spends \$ 300,000 to \$ 600,000 per legislative assembly seat (Gowda and Sharalaya, 2006: 133-34).

limited data that exists suggests that there is a strong correlation between relative election expenditure and the percentage of votes polled by a candidate. Hence, funds are a key ingredient in the election process today. *All political parties are dependent on funding, and actively seek financial resources.*

While election expenditures have been ballooning, the political funding scenario in India is highly non-transparent. It is widely believed that all political parties systematically under-report expenditures. There is wide variation between official declarations made by parties, and the estimates made by media.¹⁷ Parties are also exempt from income tax. Despite this, political parties resort to under-reporting. This is because they would not like to disclose fully the sources of their funds, and in particular donations received in cash. The Association for Democratic Reforms has estimated that 73% of the donations made to major political parties was from “unknown sources” (Gowda and Sharalaya, 2006: 135).¹⁸

Monitoring agencies have caught several political parties using illegal inducements (cash, liquor and even heroin) to bribe voters during elections. It is therefore assumed that parties require non-transparent funds to support their illegal but evidently rational expenses.¹⁹ It is for reasons such as these that political parties seek high levels of political contributions, and may find the avenue of crony capitalist transactions convenient. The high “finance-intensity” of the political process is reflected in: (a) the substantial increases of assets and incomes reported by major political parties; (b) increasing average wealth of elected members of parliament and legislative assembly; and (c) the allocation of party tickets for electoral contest to individuals who are independently wealthy.²⁰

*(c) The capitalist firms:*²¹

Market reforms have significantly transformed the business environment. As noted above, in the pre-reform period they depended greatly on managing the protected (but license and permit ridden) environment. There is now much greater competition, and also greater exposure to the global economy. Technological dynamism is more visible, and financial markets play a larger role than they once did. As mentioned earlier, some firms and their owners have prospered spectacularly. The number of billionaires has risen in recent years. In 2015, there were 97 billionaires in India. This number was exceeded only by the US and China (Patel, 2015).

17 According to Gowda and Sharalaya, in the 2014 Lok Sabha election, the BJP stated to the Election Commission of India that it had spent \$ 110 million, while the media estimated the figure to be \$ 780 million. There is no legal upper limit on spending by political parties (unlike individual election candidates),

18 The parties referred to are the Congress, BJP, BSP, NCP, CPI (M) and the CPI.

19 Another item of non-transparent expenditure is that spent on party candidates in an election. There are strict upper limits to how much each candidate can spend in a constituency. These limits are considered unrealistic, and political parties supplement their candidates' expenditure via surreptitious cash transactions.

20 Sarangi (2016: 44) in Table 1 provides data on the income and wealth of several political parties in 2006-7 and 2011-12. These are officially reported figures, and are believed to be under-estimates.

21 We shall confine our attention to large firms in this paper, because they are more relevant to crony capitalism.

The business operating environment *is not uniform for all categories of Indian firms*. We argue that *capitalist firms function in a **dualistic business environment***, which varies across firm size, and even more so across industry sectors. Government permissions for entry and operation are crucial in some business sectors. Important among these are “natural resource intensive” sectors such as mining and land-dependent real estate. Those firms that can obtain access to these government-controlled resources gain a decisive competitive edge. These sectors are therefore prone to “rent-sharing”, and are a suitable ground in which crony capitalism can thrive. There is a convergence of interest between cash-hungry political actors and business firms. This operates at two levels—large industrial projects that require the approval of senior politicians (central government ministers or chief ministers), and those that require facilitation by local politicians. In the former category, we have, for example, the telecom spectrum, natural gas exploration and coal block allocation. Then there are the mega-industrial projects that require broad-based state support to very large companies. Local level cronyism is to be found in so-called “cash-rich” sectors, where smaller business firms such as liquor production, real estate and infrastructure operate (Gowda and Sharalaya, 2016).

In other sectors, however, the reliance on government permissions and facilitation is not as great. Information technology and other modern high-tech firms belong to this category. Some of them have been very successful in the post-reforms era. These are mainly the modern, globally integrated firms that operate in industries that are not “rent-thick”. These firms owe their success largely to their ability to negotiate the globalised marketplace. They export products and services in highly competitive and dynamic markets, raise finance abroad, have international production units, and recruit internationally. Apart from the initial land for setting up their production units, basic infrastructure facilities, and some support on trade issues and visas, these globalised firms do not require very much facilitation from government. They also need to be more transparent in their accounting and financial reporting practices, because their activities are continuously under the scanner from domestic and foreign financial market analysts.

Thus we can classify large capitalist firms into two broad categories, based on their operating environment. One category operates in “rent-thick” industries, and they have a propensity for crony capitalism. Their business strategy and investment practices include significant expenditure on securing government connivance. These may be thought of as “political investment” by the firms. The second category are the “market-competing firms”, which do not require significant political investment for business success.²² Both types co-exist in India, and each occupies a substantial space in the economy. This dualism is corroborated by Gandhi and Walton (2012), who estimate that 43 per cent of Indian billionaires and 60 per cent of their wealth originates in rent-thick sectors. As land and other natural resources have become scarce relative to demand, many firms have sought

²² Firms in information technology and other high-tech sectors that compete in global markets and/or do not depend on natural resources belong to the latter category.

to corner these resources. The methods used have not been transparent. Raghuram Rajan describes it as a shift from the old “Control Raj” of the pre-reform days to the new “Resource Raj.” Both are characterised by corruption and collusion with government functionaries (Rajan, 2012).

It is also worth noting that many *business persons are now directly entering politics* to contest elections. In the absence of strong “conflict of interest” rules, their engagement as elected representatives carries the risk of fostering cronyism.²³ The closeness to government and policymaking affords much greater returns on their political investment. Approximately 22 per cent of Lok Sabha members and 16 per cent of Rajya Sabha members are “primarily business persons”. Among the elected representatives there are steel tycoons, large contractors, hotel magnates, infrastructure developers, retired CEOs of big companies, media “barons”, tobacco “kings” and mining “lords” (Gowda and Sharalaya, 2016: 147). The direct entry of business persons into politics is a relatively new phenomenon in India, but there are precedents. It is in fact a symptom of the institutionalisation of crony capitalism. Examples can be found in Russia and South Korea. In both cases, the root cause was the dependence on businessmen for election funding.²⁴ In South Korea, when democracy re-started following the initial phase of military rule, the military-linked political party of President Park Chung-hee became reliant on big business groups for election funds. This process brought the military rulers and large conglomerates closer, and eventually paved the way for capitalist leaders to enter politics, and later to even win the presidency (Yergin and Stanislaw, 1998; Kim, 1997).²⁵

(d) *The bureaucracy*

During the early decade following independence, the bureaucracy played a very significant role in economic administration. The “higher bureaucracy” in particular, comprising of the All-India and the Central Services, enjoyed high social status, commanded respect and had considerable power in the era of planning. For a variety of reasons, the effectiveness and clout of the bureaucracy declined steadily from the time of Indira Gandhi’s tenure as Prime Minister (Krishnan and Somanathan, 2005). However, market reforms exacerbated the decline and triggered a very sharp process of change in the role of the bureaucracy. The market reforms provided ideological cover for a concerted attack on the civil service by a constellation of interest groups. These groups included market reform ideologues, multilateral institutions promoting Washington Consensus policies, business

23 The ethics rules for elected representatives in India regarding this matter appear to be lenient. Members of the Lok Sabha need to disclose their assets and liabilities to the Speaker, but not their interests. There is a provision that an MP should declare that they have “personal, pecuniary or direct interest” in a matter that is discussed in parliament. But this is hardly done in practice. See PRS Legislative Research (2010). A well-known example of how political power and business interests can converge is the case of the Reddy brothers who had prominent iron ore mining interests in Bellary district of Karnataka. Janardana Reddy was a minister in the State Government in the BJP-ruled government headed by B. S. Yeddyurappa (Guha Thakurta, 2014). See also the Lokayukta Santosh Hegde Report (Government of Karnataka, 2011).

24 In Russia, Yeltsin struck the infamous “loan-for-shares” deal with the “oligarchs”. Yeltsin won the elections. As a reward, the oligarchs won control rather cheaply of the giant public sector company Norilsk Nickel. It led also to entry of the oligarch-leader Vladimir Potanin into Yeltsin’s cabinet.

25 Lee Myung-bak (the 10th President of the Republic of Korea) was earlier the President of Hyundai Engineering and Construction.

associations that had been suffering through the controls and permit raj, and also the politicians who could not quite have their unquestioned say because bureaucrats were not compliant.²⁶

The market reforms sought to reshape administrative functioning by: (a) reducing the autonomy of bureaucratic functioning; (b) increasing the power of the political executive in policy decisions and hands-on engagement in policy implementation; and also (c) increasing the accountability of the civil service to the citizens at large for public service delivery (through mechanisms such as citizens' charters, stronger service standards, and grievance redress systems).

It is true that in India during the 1970s and 80s, inefficiency in government increased, the quality of public services was poor, petty corruption was common, and citizens felt disempowered in the face of an unaccountable civil service.²⁷ In particular, there was a social and cultural distance between the bureaucracy and business persons.

Despite all such deficiencies, however, *a strong and well-functioning civil service is absolutely vital to a "rules-based" system of LMEs*. It is the central task of the bureaucracy to uphold rules and procedures in government work. It is their major responsibility to provide professional advice on policymaking to political bosses so that policy choices are rational and defined by public interest. And it is their job to implement policies efficiently and fairly. A longstanding challenge to bureaucratic functioning is political interference in decisions and pressure from interest groups to swing decisions in their favour. In order to facilitate their ability to function, built-in mechanisms are in place, insulating the bureaucracy from such pressures.²⁸ It is extremely difficult, if not impossible, for crony capitalism to flourish in the presence of a strong and upright bureaucracy. In recent decades, politicians weakened the independent bureaucracy through several mechanisms in order to make them more pliant. These include: (a) using frequent transfers of recalcitrant and upright officers to unimportant posts as a way of "incentivizing" compliance;²⁹ (b) dividing the bureaucracy and creating "friendly" officers through favouritism in posting and promotions based on caste identities; (c) favouring civil servants based on political affinity; and (d) damaging careers of non-compliant officers by writing unfair and discriminatory annual confidential reports (ACRs). These strategies have had the effect of disrupting the lines of administrative authority and discipline by weakening the authority of the head of the administration (e. g., the Chief Secretary) (Appu, 2005). Through such processes, politicians have attempted to create a system of bureaucrats who are more amenable to facilitating crony capitalism. The objective is often to completely politicise the policymaking process.

26 The attack on bureaucracy was a global phenomenon that began with Margaret Thatcher's and Ronald Reagan's strident calls to fix the government. It found an echo in the New Public Management approach to administrative reform.

27 It is perhaps true that the higher civil service had over time become somewhat insular, clannish, unresponsive, and lacked an ethos of citizen-friendliness. Unlike the economic bureaucrats of East Asian developmental states, the Indian civil servants also did not have a culture of working in partnership with non-government stakeholders.

28 These are long term job security, constitutional protection against wrongful dismissal, and other appeals processes. There are of course rules and processes for proper conduct, which are intended to provide a measure of protection against arbitrariness.

29 The average tenure in a post for IAS officers has fallen drastically. It is obviously not possible to get familiar with a new post and deliver effectively without a reasonable duration of tenure. According to a media report, over two-thirds of IAS officers work for less than 18 months in a post (Thakuri 2014).

4. The modus operandi of crony capitalism

In the above section, we examined how the behaviour of the key actors in government-business relations has altered over time, particularly after 1991. We analysed the structural factors due to which each category of actors has become amenable to crony capitalism. In this section, we shall examine how the crony capitalism process works.

The reports of India's national audit agency (the Comptroller and Auditor General) have played a major role in exposing a number of cases in which crony capitalism is involved. Vinod Rai, a former CAG during whose tenure many of these episodes came to light, has recently published a memoir detailing his experience (Rai, 2014). His work provides a rare insight into the processes of governmental decision making during such episodes. Drawing on his work, we examine the modus operandi of crony capitalism with reference to one illustrative and well-known episode—Coal Mine Block Allocation. Prior to market reforms, coal was the monopoly of public enterprises. The transition involved enabling private firms to operate government-controlled natural resources. Privatisation of natural resources has always been contentious. This is particularly so in the case of coal. Policy pronouncements are rarely straightforward statements of intent. Jenkins (2007) describes how reform policymakers attempt to manage political opposition through devious tactics.³⁰ In the case of coal as well, the Government of Narasimha Rao attempted “reform by stealth”. Powerful coal mining unions and political patrons of (the public sector monopoly enterprise) Coal India Limited (CIL) were beneficiaries of the status quo. Initially, the government denied that the coal sector would be opened to the private sector. The process of private participation was, however, introduced gradually. A group of private stakeholders was slowly built up to create a political constituency for privatisation. This was done by first allowing a few firms to establish coal washeries. Next, some private firms investing in power generation, steel and cement projects were permitted to establish *captive coal mines*. The justification for allowing private firms to enter the coal sector was that efficiency would come from vertical integration. A bureaucratic mechanism was put in place to evaluate the applications contending firms sent in. The monopoly position of CIL was further weakened by allowing some firms to import coal. In this manner, a private sector interest group was created as a constituency for future privatisation. This entire process had a significant element of discretionary decision making. It is this group that forms the basis for cronyism, when the size of potential rents increases sharply. However, the Ministry initially allocated coal mining block through a set of rational and objective selection criteria. This system was corroded by crony capitalism. The subversion of the policy decision making process by cronyism is explained more fully in the case study presented in the Appendix.

30 The article was originally published in Rob Jenkins (1999), *Democratic Politics and Economic Reforms in India*. Cambridge: Cambridge University Press: 172-207.

A fundamental feature of crony capitalism is bias and unfairness in the government's policymaking process. How did this come about? As noted above, business efforts to influence policy are common across the world. Most of it is legitimate. In India, before the liberalisation of 1991, leading companies engaged in lobbying efforts (Kochanek, 2007).³¹ They maintained offices in Delhi mainly in order to lobby for their *particular interests* with regard to obtaining licenses. They also engaged with government *collectively* through business associations. The leading associations at the time were FICCI (representing indigenous capitalist firms) and the Associated Chambers of Commerce and Industry in India (ASSOCHAM) (which represented the foreign companies). The associations typically pressed for simplifications in regulations, lower taxes, and so on. Businessmen did form personal relationships with ruling party politicians. Nevertheless, *individual capitalists were not really in a position to shape core policies during this phase*. The state-dominant ideology was very strong, and the business community did not enjoy a high level of social influence at the time. Capital markets were relatively underdeveloped, and middle class investors had not entered financial markets in large numbers.

During the 1960s and 70s, business firms had already begun to provide money and gifts to bureaucrats and politicians in expectation of favours.³² There were reports of "black money" flowing to political party coffers. During Indira Gandhi's regime, the Congress party increased its "socialist" rhetoric. In 1968, her government banned corporate donations to political parties. Ostensibly, this was to prevent black money from corrupting politics. However, many believe that it was really to choke political contributions to rival parties. This measure had the perverse effect of driving corporate funding of political parties underground, and probably made black money contributions more common (Gowda and Sridharan, 2012). According to Kochanek, the ruling party used coercive methods of persuasion (e. g., the use of government machinery such as the Revenue Intelligence and Enforcement machinery) to raise election funds. Those companies that complied were able to expand their business and prosper. Apart from facilitation of licenses, the companies benefited from access to large industrial loans from public sector development financial institutions and nationalised banks. Other companies (such as the South Indian business houses) resisted such pressures from the Central government, and carved out working relations with the State governments.

During the 1980s and the 1990s, the mechanisms of political funding underwent changes, which increased the role of corruption. During this phase, Kochanek argues that the *locus of political rent-seeking shifted from industrial licensing to large public sector projects with private participation, military contracts and infrastructure contracts with foreign companies*. Direct political contributions from Indian business houses became less important than *kickbacks*. Prime Minister Rajiv Gandhi

31 The article was originally published in 1996 in *The Journal of Commonwealth and Comparative Politics* 34 (3) November: 155-73.

32 This was the period of the so-called "brief case politics", referring to the practice of transfer of cash donations to Congress Party coffers.

removed the ban on corporate contributions to political parties, but by then these funds were not very important.³³ After 1991, the idea of privatisation in industries gained ground among reformers. With the crony capitalism of the 2000s, we are observing yet another, new phase wherein there is intensification of collusion with regard to manipulation of the policy process.

Crony capitalism is primarily a “rent-sharing” arrangement. For this to be a viable system, it requires an enabling institutional configuration of policymaking. In the section below we present a schematic account of the new mechanisms:

1. *Generation of high potential rents*

Economic rents are primarily a reflection of scarcity of a natural resource relative to its demand. A sharp rise in demand leads to a rise in rent. This can happen as a spillover of the high aggregate economic growth in the economy. It can also originate from rising demand abroad, as has happened with the Chinese demand for Indian iron ore. But it can also be triggered by domestic policy. *A policy decision of the government announcing very ambitious targets for production and/or utilisation of the natural resource will also increase potential rents.* Often this comes with substantial government spending to back it, which works like a *public guarantee of future demand*. These announcements sharply *increase the expected profitability in these sectors*, demand for access to these publicly controlled natural resources increase, and with this the potential rent rises. For example, in the case of coal, the announcement by the government of its new power policy—“Power to all by 2012” triggered the rise in demand for coal. Similarly, in the case of the 2G spectrum allocation, the National Telecom Policy (NTP 1994) was the trigger for high rent on spectrum.³⁴

How should this potential rent from the natural resource be shared? Once the decision is made regarding the recipients of the rights of utilisation of the resources, the next step is to decide on the price. If private parties are compelled to pay the full implicit commercial value of the resource, then of course the entire rent is retained by the government—and by implication the citizens of India as a whole. At any price below full market value, the rent is shared between the government and the private party. Crony capitalism is, in principle, the increase in the portion of rent that accrues to the private party with the connivance of politicians or bureaucrats. It is, however, difficult to estimate the true market value of a natural resource in the absence of a competitive market process that establishes the price. It is for this reason that auctions are recommended as a better means of gaining both price-discovery as well as to benefit the public exchequer.

33 J. R. D. Tata is reported to have told President R. Venkataraman in a private meeting that “since 1980 industrialists had not been approached for political contributions and that the feeling among them was that the party was financed by commissions on deals” (Kochanek, 2007: 420).

34 The policy defined key objectives such as the availability of telephones on demand, high quality telecom services, and set targets. In recognition the inability of government alone to finance the required investments, it opened the sector to private participation. The policy led to an extremely rapid expansion of the telecom industry, particularly wireless telephony. It is regarded as one of the major success stories of Indian reforms. Nevertheless, it was also the ground for the infamous 2G spectrum allocation scam. The high potential market value of the scarce radio frequency spectrum was the source of the rent that would arise from its commercial use.

2. The resource allocation policy process

In the case of natural resources, the typical policy process in the late 1990s and 2000s has worked as follows:

- a. Policy is made by a small group of top decision makers. This includes the Prime Minister (PM) and his team, which includes staff in the Prime Minister's Office (PMO), the concerned minister and his top officials. These policies are general in nature.
- b. The implementation of the policy is the task of the bureaucracy in the Ministry. They frame the detailed guidelines and rules. During this process, negotiation and discussion take place within government (including with other related ministries) regarding their content. *These deliberations are confidential in order to insulate against meddling by external interested parties.*
- c. In the market reform period, natural resource sectors have been opened to private sector participation. Demand for access to these resources from the latter is high. *Allocations are typically made on the basis of scrutiny of applications by a designated committee.* Decisions are made on a *case by case basis*. *Final clearance requires the concurrence of the concerned minister*, and may also require the approval of other bodies such as the Cabinet Committee on Foreign Investment and the State Government. Because of the closed nature of these deliberations, the system affords opportunities for crony tactics. There has been resistance from politicians to utilising alternative, more transparent allocation processes such as auctions.³⁵

The Appendix presents a detailed Case Study of the Coal Block Allocation episode, based on the publicly available findings of the CAG's investigation of the issue (Rai, 2014; chapter 8). The case study details how the pre-existing administrative policy process for allotment lost its rationale and functionality. This occurred due to two key structural factors. The most important factor was the ability of private interests to exert pressure *through political channels* in order to influence the internal decision making process on allotments. The confidentiality vital to this mode of allocation was thus no longer guaranteed. The external attempts to subvert the system derived from the sharp increase in the potential rents that could now be extracted from access to coal. The second factor is that the sharp increase in the number of applicants for allocation makes the detailed case by case evaluation procedure by the designated committee very time-consuming and onerous. Recognising these constraints, the Ministry's civil service officials proposed the introduction of a new and transparent allocation mechanism—auctions. Apart from transparency, Ministry officials argued that the major advantage of the auction system would be a more reliable price discovery for the natural resource. Hence it would result in a substantial gain for the government exchequer. This move was resolutely resisted by the political executive (the Minister of State, or MOS) in charge of

³⁵ Though auctions have been recommended by many observers, this is not necessarily the only way to deal with the rent-sharing issue. We discuss this point in a subsequent section detailing our recommendations.

the Coal Ministry.³⁶ In doing so, the Minister actively supported the interests of the private sector allotment holders who were receiving a high share of the rent on the scarce resource. Ipso facto, this suggests that the MOS was colluding with crony capitalists.³⁷

The case study details how the conflict between the bureaucracy and the Minister played out. It describes the struggle for institutionalisation of a new allocation mechanism after the earlier system had lost its effectiveness. The striking feature of this part of the episode was the ability of the MOS to block the transition to the auction system despite the fact that the PM (who held additional charge of the Coal Ministry in phases) had supported the transition. *The PMO appeared to reverse its own stand on the issue.* This allowed long delays in implementation of the new system, and consequent build-up of frustration and uncertainty among bidders. The case also highlights the *extremely weak systems of inter-ministerial coordination.* The MOS had argued that new legislation was necessary. It took an *inordinately long time for Coal Ministry officials to recognise that no new legislation was necessary for the shift to the auction system.* This highlights the necessity of effective political coordination and strong commitment at the highest levels of government when it comes to implementing policy change, and to resist crony capitalist inroads.³⁸

The issue could not be resolved through the political and administrative processes. In the end, alternative corrective mechanisms were brought into operation in the face of policy failure. *The CAG, the CVC, the media, the political opposition parties, the Supreme Court and the investigative agency all played roles in the corrective process.* However, this type of corrective process is very imperfect and incomplete. It is conflictual, generates a lot of negative publicity, is time consuming and not free from counter-bias. It has been suggested, for example, that the investigative and enforcement agencies do not really function independently, and that they follow the directives of the government in power. Under such conditions, the party affiliation of crony actors may change, but the crony capitalist processes will continue. A deeper change in the structure of our political-economic system is necessary.

3. Curbing crony capitalism—suggestions for institutional reform

To recapitulate, our analysis of the nature and supporting political economic structure of crony capitalism shows that it is a deeply embedded phenomenon. It has developed over time through the evolving relationship between capitalist firms and the government.

At the heart of the economics of the process is the conjunction of two factors: the demand for funds from political parties for election and other political expenses, and the supply of political funds

³⁶ The Coal Minister changed several times in this period for exogenous reasons. Shibu Soren held the position for two stints. During this time, he strongly supported the MOS (D. N. Rao) against the PMO, and upheld the auction system. During the intervening period, PM Manmohan Singh held additional charge as the Coal Minister.

³⁷ As noted in the Appendix, subsequently the MOS and several others have faced trial in the CBI Court under charges of collusion.

³⁸ P. C. Parakh, who was the Coal Secretary at the time has attested (Parakh, 2014) to the weak position of PM Manmohan Singh and his unwillingness to take a strong stand against vested interests.

from crony capitalists. The supply of “crony funds” originates from the potential rents available in natural resources that are under the control of the government. The crony system thrives when potential rents rise. This often happens as a result of policy changes that (a) boost demand for the natural resource, and (b) allow the transfer of these resource to private entities. The rents are shared between the crony business entities and the ruling party (or coalition) and its associated politicians. In the process, rents are diverted from the government exchequer. Crony capitalists also gain from facilitation of access to large loans from public sector banks. Operationalising a crony-oriented resource allocation system requires the subversion of the pre-existing policy process and resource allocation system. Though the old allocation process is bureaucratic, it is not ad hoc. There is an inherent rationality built into the rules governing the system. The crony allocation process also requires non-transparency and scope for discretionary unfair allocations. If the bureaucracy is upright and resists efforts to subvert the system of allocation, there is a conflict between the politician and the bureaucracy.

How can the crony process be arrested? From our case study of the coal allocation episode, we found that the report of the CAG played an important role in bringing the deviation from due process in the Coal Ministry to the attention of the relevant Parliamentary standing committee. However, due to media coverage, the public at large became aware of the issue. The corrective process then assumed a political form, as rival parties took up the matter. We also saw that other organs of the state—such the anti-corruption agency, the Civil Vigilance Commission (CVC) and the higher judiciary also became involved. All the above corrective mechanisms are, however, of an ex-post nature. They try to address the problem *after* it has happened. The resolution process is also *very socially costly*—in terms of loss of national reputation, de-legitimising of the government, and disruption of government functioning.

Is there a better way to address the problem of crony capitalism? For this we need to find structural solutions. For a comprehensive change in the system, the following needs to happen simultaneously at multiple levels:

1. Reform of the political funding system
2. Reform of the policy process
3. Strengthening of audit institution
4. Reforming the business environment

We saw in Section 3 how the advent of crony capitalism had transformed the motivation and behaviour of all the major stakeholders (political executive, political parties, capitalist firms, and bureaucracy). It should be noted that *the change in attitude has not been monolithic*. Within each of the above categories there is actually a division between those who are aligned to crony capitalism and those who are opposed to it. Thus, for example, there are crony politicians and those who are honest; there are crony capitalist firms and those firms that do not play according to those rules.

The shift away from crony capitalism can occur if those who are opponents of crony capitalism are strengthened. Our recommendations below indicate the core elements of such a strategy.

Reforming the political funding system

Gowda and Sharalaya (2016) have made some useful suggestions in this regard. They have proposed realistic rules regarding political funding, which lower the dependence of politicians on illegal funds. The high cost of politics is a fact that needs to be recognised. Transparency in political funding should be increased. Direct contributions by corporates and electoral trusts to individual candidates should be permitted. This would ameliorate centralisation of party funds. They also suggest that some degree of state funding for elections, including mechanisms that reward individual candidates based on the number of votes polled. The idea is to level the playing field for honest local politicians.

The idea of state funding for elections as a way to curb political corruption is not new. Former Prime Minister V. P. Singh proposed the idea in 1997 (BSCAL, 1997). Recently, Prime Minister Narendra Modi has also mooted the idea (Panicker, 2016). However, the issue has been debated in India since at least 1972, when the Joint Committee of Parliament on Amendments to Election Law proposed the idea.³⁹ The time has come for state funding of elections to be institutionalised.

Suggestions for reforming the policy process⁴⁰

1. The policymaking process should be more transparent, consultative and participatory.

Though policymaking is the responsibility of the political executive (Minister) and the Ministry / Department, *both internal and external consultative processes should be strengthened.*

Consultative processes with regard to policymaking and policy implementation typically involve discussions between the Department officials and other Committees and Bodies whose functions are mandated by legislation, and set by practice as well as legal processes.⁴¹ In the case of Telecom, for example, this includes the Telecom Commission (the policymaking body), the TRAI. There are also mechanisms for inter-ministerial consultations usually managed by the PMO and/or the Cabinet Secretariat.

It was during the *policy implementation process* of coal block allocation that things went awry. These consultative systems failed to function effectively. The MOS was able to by-pass these processes of deliberation and/or use pressure to impose a particular course of action. *Hence there is a need to make these processes of internal checks and balances stronger.* The intra-governmental consultation process should include the Competition Commission, along with the Ministry. The competitive dimension is the key to efficiency when natural monopolies are

³⁹ For a history of the idea in Indian politics, see Jain (2001).

⁴⁰ This section draws on Chiranjib Sen (2016).

⁴¹ For a detailed discussion of the telecom industry's regulatory evolution, see Sen and Suraj (2009). This study explains the role of the courts in shaping the institutional architecture, including the domains of TRAI and the appellate body TDSAT.

privatised. Such consultations would enhance horizontal accountability by permitting other government agencies to monitor the decisions of the Ministry in an ex-ante manner.

2. **With regard to policymaking, open forums for consultation** can be an effective way to curb the tendency towards insular decision making within government. As we have seen in the coal block allocation, such insular processes can be easily subverted by crony politicians. The main advantage of open consultative forums is that they bring ex-ante transparency, and also induct expert knowledge into the system. However, policy consultation processes must be carefully designed and their operating norms transparently explained and adhered to. These forums should be institutionalised and mandated by law rather than left to the discretion of individual ministers and bureaucrats. The deliberation processes should be well structured, inclusive and the content of their deliberations made public. The Japanese process of consultative policymaking through the use of policy networks is justly famous. They are inclusive, and the deliberations are well structured, held in stages and well documented at each stage.⁴² In India, the consultations are more restricted, and ad hoc. The civil service keeps firm control on the drafting of policy.

A broad-based consultative approach to policymaking is gradually becoming the norm in most countries. In the European Union, for example, the guidelines for consultation recommends consultations with stakeholders—including those affected by the policy, those who implement the policy, those who have a general interest in the policy, and those who have the knowledge and expertise to contribute to a solution.

3. **Incorporating external technical analysis** in the decision process is desirable. The notional price of natural resources is often the most contentious issue because these resources had been under state control before privatisation. Here the use of technical economic analysis would be very useful in decision making. The fact that the CAG had to go to great length in order to establish the quantum of “revenue loss” indicates that such estimates were not carried out during the coal block allocation by the Screening Committee. A growing body of opinion prefers the use of auctions as the most transparent method of price discovery. There is a large amount of technical literature and global experience available from which policymakers can learn about how auction procedures can be appropriately designed for natural resources.

Suggestions for strengthening the audit institutions

India does have in place well-conceived processes of accountability. This includes the CAG as well as well as parliamentary forums like the Public Accounts Committee (PAC).⁴³ The role of the CAG is

⁴² The Japanese model of consensus-oriented, consultative industrial policymaking has been criticised particularly after Japanese economy slipped into a long recession. Nevertheless, even today the essential elements of this style of economic governance (at the core of which is the formulation of a national strategy and vision) persist. See for example, Government of Japan (2010).

⁴³ We shall not go into the role of the other institutions—Central Vigilance Commission (CVC), the Central Bureau of Investigation

analogous to that of an “internal auditor”, because the CAG is a government organization and part of the “establishment”. According to the Institute of Internal Auditors, Florida, the function of such internal audit is to evaluate the efficient and effective use of resources.⁴⁴ The CAG played a key role in drawing attention to the process deviations that made the coal block scam possible. This shows that the audit process itself can and does work. However, the sustained political attack on the work of the constitutional audit body has been very hostile.⁴⁵ The aggressive stance of politicians too has enabled the gradual emergence of a skewed policy environment in which it is much more difficult to get political actors to obey “rules-based” processes. Hence, the CAG’s capacity to function must be enhanced. This could be done through the following steps:

- a. **Enact legislation that allows the CAG to take retaliatory action** against those who try to unfairly attack and undermine the constitutional authority.⁴⁶ This could be along lines similar to the restraining powers that courts have against “contempt of court”.
- b. **The right of the CAG to conduct “performance audit” of Government must be strongly and unequivocally upheld.** There were repeated attempts to confuse “policymaking” and performance audit of the government’s *policy implementation*. The CAG was faulted for not preventing scams before they happened. However, ex-ante audit is not a part of the CAG’s function. Hence the powers and responsibility of the CAG have to be clearly demarcated and reinforced.
- c. **The roles and responsibilities of the CAG vis-à-vis the Parliament must also be respected by parliamentarians and political parties.** This relationship must be understood and respected. The autonomy of the CAG implies that he is not expected to follow the line of the government that has appointed him.
- d. There was much furore over the CAG’s attempt to **provide an estimate of the quantum of loss to the public exchequer**. The key point here is to note that the national audit body is within its rights to make such an estimate. However, the methodology of such estimates including the assumptions made in arriving at the numbers should be made explicit. They should be open to public scrutiny and challenge.
- e. **Social dimensions of the audit of government programs can be enhanced.** India follows the “Westminster Model” with regard to the functioning of the CAG.⁴⁷ This system

(CBI) and the Chief Information Commissioner (CIC),

44 I am grateful to N. Balasubramanian for drawing attention to the Institute of Internal Auditors definition of the role of internal audit.

45 See Rai (2014) for a detailed account of these attacks.

46 During the 2G episode, the CAG was publicly described in the media by government officials and legislators as a “loose cannon”, accused of having “malicious intent”, and of “overstepping boundaries”. The staff of the CAG’s office was described as “untrained”. An apex industry association ran advertisements in the press accusing the CAG’s reports of “creating distrust”.

47 The Westminster Model of the Supreme Audit Institutions in a country is one of three major public accountability models in the world. The others are the Judicial Model and the Board Model. The Westminster Model relies on a parliamentary system of accountability. In this model, the parliament authorises expenditures, and the accounts are prepared by the different government departments and other public bodies. These are audited by the Supreme Audit Institution, which is submitted to Parliament after

relies heavily on the parliament as the means to recognise and act on its reports. However, the global trend in democracies is shifting towards more participatory processes of accountability. This includes enabling civil society organizations to carry out “social audits” in areas where they have superior knowledge, and also to collaborate with the CAG. The preparation and circulation of documents in popular formats that enable the general public to understand the findings of the CAG’s reports is also a welcome trend that should be mandated and maintained.⁴⁸

Suggestions for reforming the business environment:

We have noted that the Indian business community has developed a dualistic structure with regard to the use of crony-tactics in its corporate strategy. Firms that do not depend heavily on government-controlled resources and firms that rely on global markets generally do not adopt crony capitalism. Those firms that rely on access to natural resources and/or loans from public sector banks have an incentive to participate in the crony nexus.

What can be done to reduce the incentive of firms to use “political investment” as an accumulation strategy? Crony capitalism is now entrenched in the Indian business system. Its eradication therefore requires a long-term and multi-dimensional process to unfold. The key factor is that the incentive to engage in crony business practices must decline. This can occur from the following developments:

- a. **The quantum of extractable rents from natural resources should decline:** Potential rents will decline if the price of the natural resources in question is moderated. The demand for the natural resource is unlikely to decline in the present phase of economic development, which calls for high growth. Therefore, the supply should increase. This can happen if the private companies are made to *adhere to the production targets and price agreements that accompany the transfer of exploration and production rights*. Crony mechanisms are often used to renegotiate agreements. Ensuring that agreements are honoured is the task of the independent regulatory institutions. Unfortunately, the experience of the last two decades has not been satisfactory. What should be independent regulatory institutions have been shown to be liable to “regulatory capture”. Hence, these institutions must be strengthened. The scope of their work, appointment of members, decision making processes, ability to impose penalties and accountability of regulators need to be improved. The trigger for introducing such changes must come from external pressure in a situation where the government lacks “political will” (due to crony factors), Here, the role of industry associations (where non-crony capitalist firms have a voice) and multilateral institutions are crucial.

review by a dedicated Public Accounts Committee (PAC), The government responds to the PAC.

⁴⁸ This practice was initiated by the CAG’s office under Vinod Rai in relation to large government programs which affected many people—such as the programs in food, health, employment and education, as well as water pollution. The CAG collaborated with key NGOs working in these domains. See Rai (2014), chapter 2, and van Zyl et al. (2009).

Alternatively, as discussed above, extractable rents by private firms will decline if the allocation mechanism is changed to transparent auctions. The feasibility of auctions will increase if there is increased competition. Case-by-case allocations become more onerous as well as unnecessary. The possibility of cartel-like formations would also decline when there are more competitors. It is worth noting that during the coal mine block allocation, there was no significant clamour from the contesting firms as a whole for a shift to the auction system. This suggests that there was insufficient competition. Hence steps should be taken to increase competition, including that offered by international firms.

b. The ability of crony capitalists to influence the banking system should be curbed:

Cronyism is a means to increasing influence. One area in which this is used is access to finance. A small number of very large firms (including crony-type firms) have very high outstanding debts to the public sector banking system.⁴⁹ Their repayment record is not very good, especially during recessions. These account for a high proportion of the Non- Performing Assets (NPAs) of public sector banks. The debt recovery mechanism of these banks is weak. It is necessary to reduce the influence of “bigness” in the banking system, and to strengthen the debt recovery process. Here the role played by the Reserve Bank of India (RBI) in forcing Indian banks to clean up balance sheets is very important (Rajan, 2016). Such steps will also help the stock markets take into account that high outstanding debts relative to earnings are a disadvantage. At the moment, stock market valuations of such companies are unaffected. It is also necessary to be very cautious in giving banking licenses to large conglomerates which have expressed interest in entering banking.

c. The reputational cost to crony capitalism should increase: All firms operate within a social and political environment. It is important for them to maintain a good reputation. Crony strategies would be less attractive for firms if these activities carried a significant reputational cost. The role of investigative journalism and civil society watchdog organizations can be very crucial in this context. The adverse publicity resulting from their revelations can result in resistance from political parties (from the opposition as well as parties with anti-corruption ideology) and business stakeholders as well as potential investors. The firms are aware of this, and most have strong public relations departments that work to preserve their corporate image. For this reason, it is crucial to preserve the autonomy and freedom of expression of the media. Journalists and other whistle-blowers are now facing increased harassment for their exposes. This includes pressure to withdraw publication, non-acceptance of books by leading mainstream publishing houses, and launching of lawsuits

⁴⁹ Gowda and Sharalaya (2016) note, for example, that the Adani Group, which is known for its closeness to the Modi government, had an outstanding long term debt of Rs. 55,365 crores and a short term debt of Rs. 17, 267 crores from domestic banks in September 2014. According to media reports, Modi urged the State Bank of India to lend \$ 1 billion to Adani Mining (Australia). According to media reports, the top 30 loan defaulters account for one-third of the total gross NPAs of public sector banks (Sasi, 2016).

against writers for alleged defamation.⁵⁰ Moreover, major corporate houses now own most of the large media houses. It may be noted that media business is included in Gandhi and Walton's list of "rent-thick" sectors. Editors who do not toe the line have been known to have been shunted out. Hence, it is necessary for citizen action to counter the corporate attempts to monopolise the media. Legal defence funding to support journalists and NGOs facing legal harassment, as well as alternative publishing forums, could be a useful first step to keeping clear the channels of communication.

6. Conclusion

Crony capitalism has emerged in India as a result of a flawed transition process that sought to move the country from a state-dominant economy to a liberal market economy. The institutions that are required to provide economic governance in a liberal market economy were relatively weak. Crony capitalism emerged particularly in those sectors of the economy where the government controlled natural resources and infrastructure. As part of the market reform agenda, these were transferred from their original domination by state monopolies in order to facilitate exploration and production by private companies. The initial focus of policy was to ensure that the entrenched public sector monopolies and their parent government department did not obstruct the new private sector entrants.

Over time, the transition took a different turn. These government-owned sectors had a very high rent-generating potential. Consequently, mechanisms evolved to share these rents between colluding politicians, the private firms and bureaucrats, resulting in losses of potential revenue to the government exchequer. The process involved not merely corruption, but a structural change in the political-economic configuration. The motivations of (significant constituents) of key actors—the political executives, political parties, bureaucracy and capitalist firms changed, and became aligned to a system where such rents were shared. An important causal factor was the rising cost of politics and elections.

In this paper, we examined the case of coal mine block allocation. This gave us a micro-level view of how the policy process was subverted by crony pressures, and attempts to shift towards policy that would eliminate rent extraction were successfully resisted for several months. We also saw that the process was finally disrupted by the findings of the CAG. However, these corrective measures that emerged after the fact, and the subsequent political and legal reactions carry significant costs. They also do not address the root cause of the problem, and hence the possibility of rent-extraction can continue with a new set of actors.

50 These have been dubbed "strategic lawsuits against public participation" (SLAPPs) by Ghosh and Guha Thakurta (2016).

A comprehensive approach to dealing with the problem is necessary. We therefore examined some structural changes by which the underlying determinants of crony capitalism could be addressed. These were reforms in political funding, improvement in the policy process to bring about more ex-ante transparency, strengthening the audit agency's independence and scope of work, and measures to transform the business environment such that the relative returns to crony-type investments are reduced.

It is clear that the problem is many sided and deep rooted. There is no single actor who can singly devise a strategy to deal with it. The issues can only be addressed if there is a gradual coalescence of interests of diverse actors opposed to crony capitalism.



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Appendix

Case Study: Coal Mine Block Allocation

As an illustrative case study, we examine the crony capitalist subversion of the coal mine block allocation mechanism. The episode became controversial following reports by the CAG. The CAG held that the scam caused huge losses to government revenues—Rs. 1.86 lakh crores. This figure was similar to the 2G Spectrum Allocation case, which the CAG estimated to have cost the government Rs. 1.76 lakh crores.

The policy process

Vinod Rai (2014) details the manner in which a politicised allocation process came into being and subverted the pre-existing policy process. The salient features of the coal block allocation episode are as follows. Before the reforms, Coal India Limited (CIL) a public sector firm, held monopoly over coal production, as per the Coal Mines (Nationalization) Amendment Act, 1973. In order to enable the entry of the private sector, the Act was amended in 1993. The amended Act permitted Indian companies in power generation and iron and steel producers to mine coal for captive use. Thus from 1993 onwards, coal mining blocks were allocated as follows:

The Ministry of Coal did the allocations. These were done on the basis of recommendations of the *“Inter-Ministerial Screening Committee”*. This committee was chaired by the Secretary (Coal), and included representatives from State Governments, officials from Coal India Limited (CIL) and the Ministry of Railways. The examination of the applicants was done on a case by case basis. Final approval would be given by the Minister of Coal based on the committee’s recommendations.

According to the guidelines, the screening committee was expected to assess the applications based on the following criteria:

- Techno-economic feasibility of the project
- Track record of the company in executing projects
- Financial and technical capabilities of the applicant companies
- Recommendations from relevant state governments and ministries.

On the face of it, this seems like fairly standard evaluation procedure. Most of the elements would have had objective measurable components. The system appears to have weakened over the decade that followed. The CAG did an audit of the Ministry in 2011. It observed that minutes of the Screening Committee deliberations did not indicate that a thorough evaluation procedure had in fact been conducted. The minutes merely recorded that a decision had been made regarding a mine block allocation “after due deliberation”. The specific status of the chosen applicant relative to the evaluation criteria was not recorded. Hence the rationale for the decision was not transparent.

In fact, the bureaucrats of the Coal Ministry were themselves not very comfortable with the process. The Secretary (Coal), the chairman of Screening Committee, stated that:

- Transparency and objectivity were difficult to achieve in committee decisions because of “pressures of all kinds”. In short, attempts were being made to influence the allocations. Interested parties had managed to locate channels through which they could pressure the committee.
- The deliberation process had also become more onerous and time consuming because of the increase in the number of applicants.
- Because of the rising demand for coal, the market price of coal had risen substantially. The price at which CIL sold coal was now much higher than the cost of production, *i.e. the quantum of rent being captured by the private producer who had been allotted the mine blocks was high*. In view of these facts, the *Ministry officials recommended a transition to auctioning via competitive bidding as the method for allocating coal blocks in the future*. This would also yield more revenues to the government.

The point to note here is that in this case the senior bureaucracy of the Coal Ministry had acted in the public interest. They proposed shifting to a more transparent system in which the scope for corruption and external influence would be eliminated. *In short, the bureaucrats were resisting crony mechanisms*. Under normal circumstances, there should not have been a major problem in shifting to the new system recommended by the officials. In fact, the PMO supported the notes sent by the Coal Secretary proposing the change in allocation procedure.¹

The transition to the auction system was, however, strongly resisted by the MOS.² Rai’s account of the ensuing struggle between the MOS and Ministry officials over the issue reveals clearly how the policy process had been subverted. The salient features of this struggle over coal policy are:

- The Secretary (Coal) proposed a shift in policy to the auction system, and received initial approval from the PMO. The Coal Ministry proceeded to prepare a Cabinet Note for the purpose.
- During the Cabinet note preparation process, the ministry received a note from the PMO opposing the shift, and listing the disadvantages of the new system. This note was suspected to have come from an external source who was aware of plans to change the system. If true, the confidentiality of high level inner processes of government had been breached.
- The Secretary (Coal) rejected these criticisms, gave reasons and went ahead to prepare a draft Cabinet Note.

1 The notes from the Secretary (Coal) to the PMO were sent on July 16 and July 29, 2004. During this period, the PM held temporary charge as Coal Minister.

2 During this period, the MOS for Coal (Dasari Narayana Rao) was a member of the Congress Party. The difficulty of managing coalition partners was not a factor in this case.

- The MOS opposed the shift, citing the following political and legislative reasons:
 - An amendment to the Coal Mines (Nationalization) Act was pending in the Rajya Sabha. No change should be made before the amendment was passed.
 - There were objections from trade unions and others.
 - The stakeholders in mine block allocations were satisfied with the present system. There was no objection from any of them.
- The Secretary (Coal) was undeterred. He continued to press for change to the auction system. The Ministry officials had met with the stakeholders on July 28, 2004. *The PM (as Coal Minister) approved the Secretary's proposal to start with the auction system with all the applications that were received after this cut-off date.* This decision was formally communicated to the Ministry by the PMO on November 1, 2004. Under normal circumstances, *this should have brought closure to the matter.* This did not happen.
- Shibu Soren returned as Coal Minister shortly thereafter and *immediately reversed the PM's decision.*³ He endorsed the MOS's idea of continuing with the old system. However, Soren had to step down again. Following this, the Secretary once again approached the PM (who had re-assumed charge of the Coal Ministry), *The PM on March 24, 2005 again approved the decision to start the auction system.*
- Once again, the MOS opposed the shift to the auction system. Surprisingly, he succeeded in stalling the process. *He proposed a series of steps that would further delay the change in the system. This had the effect of creating confusion and uncertainty among the stakeholders.* Many applications were pending. This added to political pressure to continue with the old system.
- *The PMO yielded to these tactics.* The delay in transition continued. In a meeting on July 25, 2005 in the PMO, it was decided that the new system would be *implemented only after the Coal Mines (Nationalization) Act 1973 was amended.* A hard deadline was thereby averted.⁴
- *New sources of discord* appeared in the government deliberations. The first was a *debate over the impact of the auction system on the price of coal.* The power utilities apparently felt that price would increase if they joined the bidding. The coal and power bureaucracies differed on the issue. The second issue concerned federalism—objections from State government representatives regarding “centralization of power”. They argued that State governments would lose their voice in coal price decisions under the auction system. However, in the July 25 meeting, a consensus was finally reached.

3 Shibu Soren (leader of the Jharkhand Mukti Morcha Party) had been the Coal Minister in the UPA government, who had to step down in 2004 because of criminal charges against him. He was later re-instated as Coal Minister, serving from January through November 2006. He was a former Chief Minister of Jharkhand, a major coal mining state.

4 The repeated flip-flop in the decision making by the PMO suggests that there was a clash of views between the Prime Minister and his party. In this case, the party's dictates emerged dominant.

- The MOS, however, adopted a recalcitrant position with regard to follow up action. He argued that amendment to the Act would be time-consuming. He also argued that there was no need to pursue the cabinet note to the council of ministers seeking approval for change in procedures. He further argued that it would not be appropriate to amend the Coal Mines (Nationalization) Act in this case, but rather it was necessary to amend the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR). This was a much broader legislation covering all minerals.
- The decision appeared deadlocked. However, at this stage there was most ironic development. The Ministry of Coal referred the matter regarding legislative amendment to the Law Ministry. *The latter gave the opinion that in fact, no legislative amendment was legally needed in order to shift to competitive bidding.* An administrative order (to start the auction system) would be sufficient to replace the older administrative order (to have a screening system),
- It is also interesting to note that even after the MMDR Act was amended in September 2010, and rules framed in 2012, the new procedure had not been operationalised. The companies that had been allotted coal mine blocks actually produced very little coal. Hence, the justification for privatisation on the basis of urgent need seems to have been hollow.

The corrective role of political and legal processes

The above discussion indicates how the policy process failed to function effectively. The efforts of the bureaucracy to institute an alternative allocation process were stymied for years. Under these circumstances, alternative corrective processes were set in motion. When the CAG's report became public, it caused a political storm. Parliament functioning was affected by opposition protests. The Parliamentary Standing Committee report on coal and steel recommended cancellation of some allotments. Initially, the issue of corruption did not figure in the debates. However, in response to a complaint by the opposition BJP to the CVC directed the Central Bureau of Investigation (CBI) to investigate the matter in 2012. This has taken the shape of a criminal investigation. The matter reached the Supreme Court of India via a Public Interest Litigation (PIL). This led in 2014 to the Supreme Court cancelling allocation of 214 blocks.

However, according to media reports, the CBI court has held trials for a number of individuals—including D. N. Rao, the former MOS for coal, Naveen Jindal, Congress MP and industrialist, Madhu Koda, former Chief Minister of Jharkhand and 12 others in connection with an allocation in 2008. There is a charge of "active collusion" to influence the screening committee to overlook a company's misrepresentations. However, the current round of prosecution being done by the CBI appears to be selective. Similar cases involving persons who are aligned with the present ruling party are not being pursued as vigorously.⁵

5 See Singh (2016).

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About Azim Premji University

Azim Premji University was established in Karnataka by the Azim Premji University Act 2010 as a not-for-profit University and is recognized by The University Grants Commission (UGC) under Section 22F. The University has a clearly stated social purpose. As an institution, it exists to make significant contributions through education towards the building of a just, equitable, humane and sustainable society. This is an explicit commitment to the idea that education contributes to social change. The beginnings of the University are in the learning and experience of a decade of work in school education by the Azim Premji Foundation. The University is a part of the Foundation and integral to its vision. The University currently offers Postgraduate Programmes in Education, Development and Public Policy and Governance, Undergraduate Programmes in Sciences, Social Sciences and Humanities, and a range of Continuing Education Programmes.



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